

*Wools of New Zealand Shareholder Communication No. 78
11 November 2016*

From the Chief Executive

Please use the following link which will take you to our website to listen to a recent RadioNZ interview with Mark Shadbolt. Link:

<http://www.ourwool.co.nz/assets/Media-Releases/MPS-RadioNZ.mp3>

From the Chairman

40 shareholders and staff attended Wools of New Zealand's annual general meeting held in Napier last Wednesday, with a number opting for a tour of the Hawkes Bay Woolscourers ahead of proceedings.

The AGM provided an opportunity for growers to gain an insight into the activities and performance of the company over the past financial year, but also to hear about our strategy for the future.

Performance highlights included:

- WNZ achieved an operating profit of \$681k for the year ending 30 June 2016, a turnaround of \$1.1m from the previous year's loss of \$483k
- Net profit after tax of \$1.48 m for the year ending 30 June 2016
- Transacting 5.5 m kilos of wool during the year with around 31% going into direct customer contracts in the market - up from 18% in 2015
- Increase in gross margin by 28%, despite the declining sheep numbers and challenging market conditions in the final quarter of the financial year after the news of Brexit and decreased demand from China.

This is emphasizing the need for more long-term market partnerships for a differentiated product to alleviate the exposure to commodity prices. WMDC remains an important contributor in getting the new technologies to the market at around 50% of the gross margin, so we would like to acknowledge the

continued support of the shareholders, as we continue to strengthen our position in the market both nationally with the new direct to scour model and internationally with our long-term customer relationships.

There was positive feedback in relation to the presentation of our Strategic review and how 'Changing the Game' is important if we as growers are to have a sustainable and profitable future in the sheep industry.

We are excited about the potential opportunities afforded by the technologies that we are investing in and will continue to pursue market linked contracts such as the EU Ecolabel lambs wool contract, which has consistently outperformed the lambs wool spot market indicator over the past several years.

King Country Farmer Crowned as WNZ Grower of the Year

A key feature of the AGM for the past two years has been confirmation of the WNZ Grower of the Year, an annual award open to all shareholders and growers who sign up to the company's Staple supply programme.

This year the recipients were Ross and Ruth Richards, of Romani Farms in Taumarunui.

I attach an extract from Ross's speech at the AGM, well worth the read:

My perception was that to be chosen for this award you had to be something special. You had to be a fantastic farmer producing fantastic wool. It turns out this award is not about how clever we are as breeders of productive, eczema tolerant Coopworths.



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It's not about how we go to great links to feed and manage our stock to please the cleanest, brightest wall possible in our environment. It's not about how we employ top shearers and extra wool handlers to ensure the wool is well sorted with poor colour vegetated wools separated from the main lines. We do our best to do all those things.

It's not about producing the cleanest, brightest crossbred wool in the country. That honour will likely never go to a flock from the King Country. It turns out this award is about behaviour.

We don't feel we've done anything remarkable. We've only done what we believe is required to support the initial investment we made in WNZ. Along with all of you we invested a chunk of cash into a company in an effort to improve the long-term prices we receive for our wool and to move us closer to the end users of that wool.

It was never about getting the highest price for our wool today. It was about breaking out of a selling system that hadn't changed much in decades, seen wool prices on a steady decline and meant that from the moment the wool left our shed we had only a vague idea of who bought it, what happened to it or where it ended up. So alongside about 750 other farmers, we put in our chunk of cash with the expectation that it would be 5-10 years before we were fully rewarded for the investment.

On the farm we know how many sheep we have, we know how much wool they produce and we know what type of wool they produce due to past test results. So filling out a staple commitment form is a five minute job for me. So we supply all our wool to WNZ, we supply the amount and type of wool we said we would and we supply it when we said we would.

These are the behaviours that have resulted in us receiving this prestigious award. To me, these are the behaviours that every shareholder of WNZ should be displaying. Recently I was surprised and dismayed to learn that this is not the case. A lot of shareholders have made the initial investment but not backed that

up with their wool supply. If you aren't or don't supply your wool to WNZ you are not supporting that chunk of cash you initially put into the company, you are not investing in growing and developing the business and so you are putting your chunk of cash at risk.

Worse, you are putting my chunk of cash at risk too. So, if your perception is that your wool is not good enough, or that it is too difficult, or that you can't afford to sell your wool through WNZ, please think again. It is my belief and experience that in the long run you can't afford not to.

Ross Richards, Romani Farms, 2016 Grower of the Year

I think Ross articulates how many of our committed shareholders feel. Behaviour and commitment to your company is a way of changing the game and providing the returns that we need to improve profitability. A key focus as discussed at the AGM over the next few months will be to engage with our shareholders who have invested and committed by paying the WMDC but to date have not transacted their wool to D2s or become involved in any contracts.

Thank you to those shareholders who did attend the AGM and scour tour. I trust that you are more aware of the first stage beyond our farm gate of adding value to your wool clip.

Good luck with the forthcoming shearing season and your lamb selling.

Kind regards
Mark Shadbolt



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Below: Growers and staff at the world class Hawkes Bay Woolscourers. L-R – Ken Bielski, Simon Walker, Jim and Marilyn Law, Ray and Jacky Stafford, Joe Menzies, George and Maureen Searle, Ross and Ruth Richards (Grower of the Year 2016), Brent Hodgkinson, David Hobson (Grower of Year 2015), David Hildreth and Jason Everson.



Contact Us

Please contact your regional Grower Liaison (GL) directly if you wish to discuss anything.

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Wool Forward Contracts

We have recently launched a second shear wool contract for supply into a European partner. This is an opportunity for growers to secure future price certainty for compliant wool. We encourage you to act quickly.

The contract price is valid until Friday 18 Nov 2016, but will be closed sooner if required volumes are reached before this date. Please contact your Grower Liaison if you wish to participate.

Contract specifications:

Length	2-3"
Micron	35-39.0
Y-Z	3.0 max
VM	0.1 max
Price	\$4.20 / kg Clean
Delivery:	South Island – May/June 2017 North Island – Sept/Oct 2017